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### ECONOMIC REFORM AND WHOLESALE PRICES IN INDUSTRY

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CONTENTS	PAGE
Chapter 1. The Revision of Wholesale Prices Is the Most Important Stage of the Implementation of Economic Reform .....	1
Chapter 2. The Main Principles of Planned Price Formation .....	10
Chapter 3. Production Cost and Price .....	19
Chapter 4. The Economic Substantiation of Profitability and Its Calculation in Price Formation .....	29
Chapter 5. The Introduction of the New Wholesale Prices Is the First Stage of the Improvement of Price Formation .....	46
Chapter 6. Features of the Structure of the Prices for Some Types of Industrial Products .....	55
Chapter 7. Problems of the Further Improvement of Price Formation ..	72

## CHAPTER 1. THE REVISION OF WHOLESALE PRICES IS THE MOST IMPORTANT STAGE OF THE IMPLEMENTATION OF ECONOMIC REFORM

[Text] The economic reform being carried out on the basis of the decisions of the 23d party congress and the September (1965) CC CPSU Plenum is aimed at the further development of the economy through the best use of production capacities, material and labor resources. The new forms of planning, management and economic stimulation emanate from the need to combine most efficiently centralized planned management with the development of cost accounting incentives and the initiative of enterprises.

The level of development of industry and the national economy as a whole makes new demands on planning and the organization of management. A serious shortcoming in the past was the fact that in the management of industry administrative methods prevailed to the detriment of economic methods. Cost accounting was largely of a formal nature, since the rights of enterprises to a considerable extent were limited to a large number of planning indicators, which reduced the responsibility of enterprises for the results of their activity. The system of economic incentives for workers poorly interested them in improving the overall results of the operation of the enterprises, in increasing production profitability and improving product quality.

The main directions of the improvement of the methods of planning and economic stimulation of the development of production, which were outlined by the September (1965) CC CPSU Plenum, include:

measures on the increase of the scientific level of planning, which provide for the development of production on the basis of the latest achievements of science and technology, high growth rates of the national product and national income on the basis of the efficient use of available potentials and the advantages of the socialist economy;

a system of measures on the expansion of the economic independence and initiative of enterprises and on the elimination of excessive regulation of their economic activity;

the consolidation and development of cost accounting, the intensification of the economic stimulation of production with the aid of such means as prices, profit, bonuses and credit.

The measures on improving the organization of administration and intensifying the economic methods of the management of industry are based on the combination of unified state planning with the complete cost accounting of enterprises. The decree of the September (1965) CC CPSU Plenum, "On the Improvement of the Management of Industry, the Improvement of Planning and the Intensification of the Economic Stimulation of Industrial Production," stresses: "In expanding the economic independence of enterprises, the party and the Soviet Government will likewise in the future conduct a unified policy in the area of planning the main directions of development of production, technical progress, capital investments, prices, wages and finances."

Consequently, economic reform is a complex of economic measures on the improvement of planning, the expansion of economic independence and intensification of the economic stimulation of enterprises, the increase of the economic interest of workers in obtaining the best results of the activity of enterprises with the least expenditures and, finally, the improvement of wholesale prices.

The consolidation of cost accounting and the enhancement of the role of profit, credit and the entire system of commodity-money relations are possible only on the basis of the appropriate system of prices. Thus, is it possible to speak about the role of profit, if prices do not ensure the recovery of the expenditures on production? Is it possible to introduce a new system of cost accounting and the payment for assets and to create economic incentive funds, if the amount of the profit does not correspond to the new conditions of its distribution?

But it is not only a matter of this. The role of profit is now increasing and it is becoming one of the main indicators characterizing the results of the economic and financial activity of enterprises in so far as the role of prices also increases. Prices should not only ensure the necessary profit, but also create the conditions under which the profit at each enterprise would depend exclusively on its activity. It is important for prices not to be transformed into a source for the receipt of an undeservedly high profit for some enterprises and not to be the reason for the unprofitability of other enterprises.

Thus, the new system of planning and economic stimulation makes new demands on price formation. Under the conditions of the effect of the new principles of management prices are assuming the role of objective criteria, on the basis of which the entire economic activity of enterprises is carried out and its results are formed.

The old system of prices did not meet the requirements of the economic reform and therefore underwent revision in the direction of bringing prices

as close as possible to the level of socially necessary expenditures with allowance made for the recovery by all normally operating enterprises of production costs and their receipt of a profit in amounts ensuring as a minimum the payment for producer goods and the creation of the assets of enterprises. At the present stage the demands on price formation have been increased with respect to the establishment of economically substantiated value correlations for analogous and interchangeable products, the stimulation of technical progress and the formation of the optimum proportions in the development of individual production sectors.

With the implementation of economic reform the questions of the stimulation by prices of the updating of production and the increase of product quality became more acute. The wholesale prices for new types of products must be set at a level at which by increasing the technical and economic indicators of the new product (as compared with the old one) an economic advantage would be ensured for the consumer, while the recovery of additional expenses and, as a rule, a greater profitability as compared with the previously produced product would be ensured for the manufacturer. Such a procedure forces enterprises to update the production of products and to expand the output of new, more advanced types of machinery and equipment.

In order to interest enterprises in improving the quality of items, it is necessary to introduce in price formation an extensive system of markups, which stimulate the improvement of individual technical and economic indicators of one item or another, as compared with those stipulated by the current standards and the specifications. It is important to ensure the flexibility of prices, to revise in due time obsolete prices, as well as to change them as the conditions of the production and sale of products change.

As is known, the violation of prices undermines the principles of planning and centralized state management, leads to the unfounded redistribution of assets and harms the development of the economy. Owing to this all enterprises are obliged to adhere to the established prices and the current procedure of price formation.

The old wholesale prices for industrial products did not meet all these requirements, in connection with which they did not create the prerequisite for the conversion of enterprises to the new system of planning and economic stimulation.

The wholesale prices for some types of products, which were established in 1955, in a number of cases did not correspond to the expenditures on the production of the products, which during the 12-year period had changed considerably. The mass revision of wholesale prices, which began in 1962, was delayed, while the developed new price lists for a number of reasons were not put into effect.



In industry there were in effect an enormous number of temporary wholesale prices which had been approved by the former councils of the national economy and which had not been revised in due time. In 1964 the proportion of temporary prices for the products of machine building was 32 percent, including 40 percent for mining equipment, 41 percent for equipment for the textile industry, 45 percent for construction machinery and equipment, 46 percent for the technical equipment for the production of construction materials, 47 percent for forging and pressing machinery and so on. The proportion of products for which temporary prices had been established at some enterprises reached 70 percent and more.

The nonconformity of wholesale prices to the level of the socially necessary expenditures on the production of products above all was expressed in the economically unfounded differences of the profitability both for individual sectors of industry as a whole and in the production of individual items.

In 1965 the following profitability was established for individual sectors of industrial production:

(percentage of the producer goods)	
Sectors of Industry	Profit
Industry--total. . . . .	13
Including:	
Electric power and thermal power . . . . .	4.6
Petroleum extracting and oil refining. . . . .	10.4
Coal . . . . .	-17.0*
Ferrous metallurgy . . . . .	8.6
Chemical . . . . .	16.4
Machine building and metalworking. . . . .	16.7
Timber, paper and woodworking. . . . .	6.9
Construction materials industry. . . . .	5.4
Light. . . . .	29.9
Food . . . . .	24.4

\*Loss.

Whereas on the whole for industry the profit was 13 percent, in a number of extractive sectors there were considerable losses. For example, in the coal industry they were 17 percent, including 18 percent for the mining of coal. The extraction of iron and manganese ore, as well as some ores of nonferrous metals was unprofitable. Among the unprofitable ones was the production of open-hearth and Bessemer steel, low-alloy steel, sulfuric acid, many types of mineral fertilizers and other chemical products.

Great fluctuations in profitability were observed for some enterprises. Along with enterprises having excessively high profitability, a considerable portion of the enterprises (about 20 percent) were unprofitable.

Great fluctuations in connection with the unorderliness of prices were created in the profitability of the production of some items. Thus, in 1964 in nonferrous metallurgy of the 70 main items only 32 items had a profitability close to the average for the sector (from 10 to 30 percent). For 16 items the profitability was over 30 percent, while for six of them it was over 50 percent, while the production of 11 items was unprofitable, for seven items the loss exceeded 20 percent (with respect to the production cost). In the chemical industry the profitability of the production of some items was from -87 percent to +170 percent, in the construction materials industry--from -14.8 percent to +104.5 percent, in light industry--from -34 percent to +69.6 percent and so on. The same fluctuations were also typical for the production of products of machine building.

The following table, which was compiled from the data for 1964, gives a clear idea of the disparity in profitability for some types of products:

(1) Отрасли промышленности	(2) Число видов продукции, по которым произведен учет рентабельности	(3) Средняя рентабельность по отраслям, % к себестоимости	(4) Распределение продукции по уровню рентабельности						
			(5) число убыточных видов продукции	(6) число прибыльных видов продукции	(7) в том числе с рентабельностью, %				
					(8) до 5	5—10	10—15	15—20	(9) свыше 20
(10) Химическая . . . . .	215	18,5	38	177	18	24	20	16	99
(11) Промышленность строительных ма- териалов . . . . .	51	7,2	17	34	3	9	5	2	15
(12) Легкая . . . . .	135	9,9	9	126	31	29	26	13	27
(13) В том числе:									
(14) Хлопчатобумажная	21	6,2	1	20	7	7	3	2	1
(15) Льняная . . . . .	10	5,2	—	10	5	4	1	—	—
(16) Шерстяная . . . . .	23	6,3	1	22	11	10	1	—	—
(17) Шелковая . . . . .	7	18,2	—	7	1	—	2	1	3
(18) Трикотажная . . . . .	24	25,1	—	24	—	—	7	3	14
(19) Швейная . . . . .	20	12,3	—	20	4	4	6	2	4
(20) Кожевенная . . . . .	7	8,7	—	7	—	2	2	1	2
(21) меховая . . . . .	14	7,5	7	7	3	—	—	2	2
(22) Обувная . . . . .	9	16,6	—	9	—	2	4	2	1
(23) Приборостроительная	25	38,2	3	22	—	1	1	—	20
(24) Станкоинструмен- тальная . . . . .	51	21,5	7	44	4	3	—	5	32
(25) Тяжелое машино- строение . . . . .	53	17,8	3	50	2	7	7	7	27

[Key on following page]

Key:

- |  |                                     |
|--|-------------------------------------|
| 1. Sectors of industry   | 10. Chemical                        |
| 2. Number of types of products, according to which the calculation of profitability was made | 11. Construction materials industry |
| 3. Average profitability by sectors, percentage of production cost                           | 12. Light                           |
| 4. Distribution of products by level of profitability  | 13. Including                       |
| 5. Number of unprofitable types of products  | 14. Cotton                          |
| 6. Number of profitable types of products  | 15. Linen                           |
| 7. Including with profitability, percent   | 16. Wool                            |
| 8. Up to 5   | 17. Silk                            |
| 9. Over 20   | 18. Knitted wear                    |
|  | 19. Sewing                          |
|  | 20. Leather                         |
|  | 21. Fur                             |
|  | 22. Shoe                            |
|  | 23. Instrument making               |
|  | 24. Machine tool making             |
|  | 25. Heavy machine building          |

The inequality in the profitability of the production of some types of items was one of the reasons for the nonfulfillment by enterprises of the plan on the output of products in the necessary assortment. The considerable differences in profitability forced enterprises to produce above all highly profitable products. They avoided producing products with a low profitability, and all the more so unprofitable products, although frequently the national economy experienced an acute need precisely for this type of products.

A serious shortcoming of the wholesale prices in effect consisted in the fact that their methodological structure did not conform to the new principles of management. Since the profit in the wholesale prices was planned as a percentage of the production cost without allowance made for the producer goods, this could not ensure the distribution and use of the profit in conformity with the Statute on the Socialist State Production Enterprise. The need arose to revise wholesale prices on a new methodological basis.

As is obvious from what has been said, the main reasons why the old wholesale prices did not meet the requirements of economic reform consisted in the following.

First of all, the previous prices did not conform to the new requirements because the level of profitability in various sectors of industry were historically established, and the formed extreme diversity in profitability contradicted the conditions of the conversion of enterprises to the new system of planning and economic stimulation. This diversity in a number of cases made it possible for enterprises to fulfill and overfulfill the plans of accumulation not through the mobilization of internal production reserves, but through the "play" in assortment.

Secondly, the old wholesale prices were constructed without regard for the capital-intensity of products. Consequently, they did not conform to the procedure of the determination of the profitability, which was established in conformity with the decisions of the September CC CPSU Plenum. Therefore, such an important element of the reform as the payment for assets could be in effect on a limited scale. For enterprises with a high profitability the payment for assets was too insignificant and did not have the proper economic influence, while at enterprises with a low profitability in a number of cases it could not be used at all.

The indicated discrepancy was keenly sensed in the past 1.5 years, when the gradual conversion of enterprises to the new conditions took place. Thus, the majority of the extractive sectors of industry were planned loss sectors and did not have the necessary financial base for the conversion to the new methods of management. Meanwhile it was important to ensure first of all the conversion of these sectors of industry.

Thus, the revision of wholesale prices was aimed at the successful implementation of the new economic system. Inasmuch as this revision was carried out within the framework of general measures connected with the economic reform, it along with the old practical experience in the area of price formation also absorbed the new approach to the establishment of prices.

The above-noted shortcomings of the system of price formation of industrial products also determined the main directions in the revision of wholesale prices. In the revision there was set above all the task of bringing wholesale prices closer to the socially necessary expenditures on the production of products, which are being established at the present stage of development of the national economy. This problem could be successfully solved only by the close coordination of the new wholesale prices with the production cost of the products. Since the new wholesale prices were introduced on 1 July 1967, it was recognized as expedient to establish their level with allowance made for the planned production cost for 1968.

Bringing the prices closer to the socially necessary expenditures presupposed not only the coordination of prices with the production cost, but also the elimination of the unfounded discrepancy of the profitability both for sectors and for individual types of products. For this purpose the following levels of profitability by sectors were stipulated:

	(percentage of producer goods)
Ferrous and nonferrous metallurgy, petroleum extracting, oil refining, gas, cement, chemical and machine building industries (except for tractor and agricultural machine building). . . .	25
Logging industry. . . . .	20

	(percentage of producer goods)
Electric power industry, construction materials industry, woodworking industry, tractor and agricultural machine building. . . . .	10
Coal and peat industry . . . . .	7-8

The average sectorial percentage of profitability in a number of cases was in turn differentiated by groups and types of products.

Provisions were made to implement the revision of wholesale prices in the case of the stability of retail prices and the economic interrelations between the state and kolkhozes, which were established after the March (1965) CC CPSU Plenum, as well as without losses for the state budget.

The movement of wholesale prices cannot be divorced from the movement of retail prices. The ill-considered increase of wholesale prices would inevitably lead to the unprofitableness of those sectors which directly serve the needs of the population and would hinder the development of these most important sectors of production and the consolidation of cost accounting. Therefore the current retail prices and their obligatory stability predetermine the well-founded increase of wholesale prices.

With respect to agriculture it is necessary to take into account the following. As a result of a number of economic measures carried out in recent times by the party and the government certain financial relations between industry and agriculture took shape. This concerns above all the established level of purchase prices, as well as the prices for the means of production for agriculture. On 1 January 1966, for example, the prices for agricultural machinery, spare parts, rubber and so on were substantially reduced. Under these conditions it would be incorrect to take the route of the sharp increase of the prices for products sold to kolkhozes and sovkhoses.

It should be noted that an excessive increase of wholesale prices complicates the mechanism of financial regulation in the country and entails unreasonable redistribution processes in the national economy, which are not caused by economic necessity.

During the discussion which preceded the development of the principles of the formation of the new wholesale prices proposals on their sharper increase were made. Here they proceeded from the fact that a different level of prices and a different level of accumulations seemed to have formed in group B than in group A. In our opinion, there are not two levels of prices in the USSR. This is clear to everyone who examines concretely the current system of prices.

At present sharp fluctuations of profitability are observed in group B. For example, the prices for the products of the meat industry have been set lower than the expenditures on the procurement and processing of cattle. In

connection with this a subsidy has been introduced for the procurement and processing of cattle. The amount of profit is negligible in enterprises of the dairy, fishing and several other sectors of the food industry, which on the whole occupy a great proportion in group B. And hardly only because there is a high level of accumulation in such sectors as the liqueur-vodka and tobacco sectors, and to a certain extent in the textile industry (here not in all its sectors), is it possible to speak of some other level of prices. As for heavy industry, here there are also sectors with a high profitability--the petroleum and gas industry and some sectors of machine building.

Therefore only those economists who stick to the positions of a ramified scheme, and do not proceed from life itself, can assert that we have two levels of prices. The received proposals on the need to level these imaginary differences by increasing by 40-50 percent the level of wholesale prices for means of production clearly contradicted the tasks posed above.

The implementation of the indicated proposals would create a number of unfounded value correlations in the national economy above all between wholesale and retail prices. This would result in the final analysis in the need to increase the retail prices on a number of consumer goods, which in turn would make it necessary to make the corresponding changes in wages. However, it would be improper to agree to a revision of prices with such consequences.

## CHAPTER 2. THE MAIN PRINCIPLES OF PLANNED PRICE FORMATION

A price in the socialist economy is the monetary form of the value of goods. However, the nature of its manifestation, its role and function differ fundamentally from the capitalist economy.

Under the conditions of capitalism a price is formed not only under the influence of the law of value, but also under the influence of other economic laws and conditions (the basic economic law of capitalism, the law of supply and demand, market conditions and competition).

The economic laws under capitalism are manifested through the mechanism of the spontaneous market, where price functions as the main category. Therefore, the effect of all the economic laws of capitalism is reflected in prices, as in a focus.

In the socialist countries there is no spontaneous commodity market. Here the law of planned, proportionate development is in effect and all other economic laws are manifested not through the market mechanism, but through the planning of the national economy. Therefore, under socialism the market and price do not have the "omnipotent power" which dominates the capitalist economy.

Some economists do not see the fundamental difference between the role of prices under the conditions of the capitalist spontaneous market and under the conditions of a planned socialist economy. Mechanically transferring the role of prices under capitalism to our economy, they attempt to ascribe to prices the same omnipotent power. This is reinforced by the fact that by means of prices it is possible to solve all economic problems and to overcome the obstacles which arise in the practical work of building the economy. If we construct "good" prices, all the shortcomings will be automatically eliminated and the economic process of development will assume the nature of a self-regulating process. But such "arguments" ignore the main thesis, namely that a self-regulating economic process is precisely a spontaneous process of development, which is based on the market mechanism for which a "free" price is necessary. Some economists propose to shift from planned price formation to market price formation, that is, to the formation of prices on the basis of supply and demand. In their

opinion, these prices along with the market will also be a self-regulating mechanism of the economic development of the socialist economy.

However, it is impossible to graft the elements of the spontaneous market and market price formation to the Soviet economy, since it is being developed in a planned manner. Spontaneous market relations and market prices excluded planned development. And no matter how elementary and logically ideal the mechanism of the establishment of prices on the basis of the law of supply and demand and the influence of these prices on the economy might seem, they are not suitable for a planned economy. And they are not as ideal as would seem at first glance. The planning of the national economy is much more perfect and dynamic than market self-regulation.

Under the conditions of a planned economy price formation falls under the sphere of the effect of the law of planned, proportionate development, and therefore the planning of prices is one of the sections of national economic planning. Prices should serve as an active instrument of planning and should be used for the solution of the general economic problems of economic development.

The conducting of a unified state policy in the area of price formation is an objective necessity in a planned, socialist economy. The planning of the national economy is itself impossible without stable prices regulated by the state.

Therefore all proposals which call for the rejection of centralized management of this section of the building of the economy in the final analysis leads to the loss of the advantages of the planned management of the economy.

Under the conditions of the implementation of the economic reform the questions of conducting a unified state policy in the area of price formation are becoming more and more urgent. The extension of the rights of enterprises and the intensification of the economic methods of the management of the economy are implemented only when the state has in its hands such an important economic lever as prices.

What function do prices perform in a socialist economy?

A price in the commodity-monetary turnover functions as an index of the value of a commodity. In this role of theirs prices regulate the exchange of commodity masses from the point of view of their quantitative definiteness. Thus, a price is a /quantitative regulator of commodity-monetary exchange/ [in italics], which is its main function.

If a price is established in conformity with the socially necessary expenditures, it will ensure the equivalent exchange of commodity masses. Overstated or understated prices create incorrect economic relations between enterprises: some of them receive an undeserved economic impact (if the price for their products is overstated), while others, on the contrary,



bear losses. Incorrectly established prices can cause serious economic harm to the development of enterprises and even to entire sectors.

Along with this main function prices also solve other problems. Since prices are a form of value, they perform the function of a quantitative index of the socially necessary labor inputs in the production of products. Thus, in this area prices perform an accounting function. It is manifested in the fact that along with physical indicators in the practice of planning, accounting and reporting extensive use is made of value indicators, the use of which has great advantages.

Value indicators are uniform regardless of the product, the price of which they reflect. By using these indicators it is possible to make broad generalizations which characterize the production volumes by enterprises, sectors and the national economy as a whole, the increase of labor productivity, the amount of expenditures and so on. The extensive use of generalizing value indicators in the planning of the national economy makes it possible to combine centralized management with the initiative of enterprises, that is, to arrange management according to the principle of democratic centralism, which is especially important under the conditions of the implementation of economic reform. The intensification of the economic methods of management require the more extensive use of value indicators.

However, a wise combination is needed here. It is impossible in planning and accounting to be guided only by value indicators. The development of our economy is being carried out for the sake of meeting specific needs, behind which stand specific types of products. Therefore, where value indicators are insufficient for the planned regulation of the production of products in a specific variety, they should be reinforced by physical indicators.

Each price by structure, apart from material costs-- $c$ , contains all the elements of the newly created net product, that is, the national income. It consists of wages-- $v$  and the net income-- $m$ . The distribution of the national income depends on how correctly and objectively both these parts are reflected in prices.

A price is a form of value, and as a form it can deviate from the content. These deviations are explained by the fact that a price is formed not only depending on the conditions of production, but also under the influence of the conditions of consumption.

The prices for analogous and interchangeable types of products should be established with allowance made for quality. However, the quality of products sometimes does not correspond to the expenditures on their production. Therefore, prices for some types of products can be established above or below the socially necessary expenditures. Supply and demand also influence prices. The prices established under the influence of the indicated factors can be higher or lower than the social expenditures on the

production of the products and redistribute the net income created in the national economy. Consequently, they perform the function not only of the distribution, but also of the redistribution of the national income.

The planning of prices is to ensure an active influence on the economy. The main principles of price formation are also governed by this. Since the main function of prices consists in the regulation of exchange from the point of view of equivalency, prices should reflect the socially necessary expenditures on the production of products. Bringing prices closer to the socially necessary labor inputs is an objectively conditioned process.

Prices which reflect the socially necessary expenditures meet more completely the requirements of a planned economy. They ensure the economically equivalent exchange of commodity masses, which corresponds to the socialist principle of distribution according to the quantity and quality of labor, make it possible to use most efficiently value indicators for the establishment of the proper national economic proportions, as well as to compare the expenditures with the results of production for the purpose of organizing it according to the principle "the maximum production with the least expenditures." Only prices which are based on socially necessary expenditures make it possible to convert enterprises to the new conditions of operation and to introduce the new methods of planning and economic stimulation, since they ensure for each normally operating enterprise the recovery of the production costs and the receipt of a profit in the amounts necessary in order to make the payment for producer goods and to form the assets of the enterprise.

Stated generally the problem of bringing prices closer to the socially necessary expenditures is sufficiently simple and comprehensible, however its practical implementation encounters a number of serious difficulties of a theoretical and methodological order. Above all this pertains to the determination of the very socially necessary labor inputs in the production of products. On this issue there are several points of view, the difference of which in the final analysis reflects the dissimilar approach to the problem of determining the amount of socially necessary labor inputs. Thus, some economists consider socially necessary the average expenditures in the national economy, which are formed in the process of the production of one product or another, while other economists connect the quantitative definiteness of the socially necessary expenditures with the optimum proportions and the optimum plan. On this basis there is expressed the opinion that the socially necessary expenditures should be determined by the level of the "encompassing," that is, maximum, expenditures on the production of one product or another.

In resolving this problem there should be kept in mind the unquestionable, in our opinion, fact that the total of the socially necessary labor inputs on the production of an entire mass of products is governed by the actual labor resources taking part in social production and by the given level of social labor productivity. Therefore, any attempt to determine the socially

necessary labor inputs outside the framework of the available labor resources and their productivity as the objective basis of all social expenditures is theoretically incorrect and practically unacceptable for use in the management and administration of the national economy.

For example, if in 1965 on the average 76 million workers were employed in the production sphere of the national economy, both the national income and the entire national product can be estimated from the point of view of labor inputs only within the indicated time worked. The orientation of prices toward the maximum, "encompassing" expenditures would mean their detachment from the real social expenditures on the production of products, which are being formed in the national economy. With this approach the estimate of the national product and the national income would correspond to the time worked not by 76 million, but by 152 million (or even more) workers, that is, labor resources which society in reality does not have.

The construction of prices on the maximum expenditures would mean the general increase of their level and a change of the scale, which corresponds to the increase of the level of wages and the monetary face value. In the final analysis all this is nothing more than the devaluation of the monetary unit and the increase of the scale of prices. Under such conditions the problem of different expenditures (including maximum, "encompassing") is not dismissed, but arises again, only at a new, higher value level.

From the point of view of bringing prices closer to the socially necessary labor inputs the opinions of some economists on the establishment of prices on the basis of supply and demand also do not stand up to criticism. Such views are based on the fact that under the conditions of a planned economy a price is the single regulator of the conformity of supply and demand.

Without a doubt, supply and demand should be taken into account in price formation. But if all planned price formation is reduced to the effect of the indicated factors, this would signify price formation from the position of the mechanism of market conditions, which is manifested only on the surface of the phenomena. Well known is the thesis that in themselves supply and demand explain nothing, since prices are based on the law of value and the socially necessary expenditures on the production of products constitute their basis.

There seems more correct to us the opinion that the socially necessary expenditures of labor are established on the basis of the actual average expenditures which are formed in the process of the production of products. Marx indicated: "The socially necessary work time is the work time required for the production of some consumer value given the available socially normal production conditions and given the average level in the given society of the ability and intensity of labor."<sup>\*</sup>

<sup>\*</sup>K. Marx and F. Engels, "Soch." [Works], Vol 23, p 47.

In order to solve the problem of bringing prices closer to the socially necessary labor expenditures, it is necessary to determine these expenditures. In the practice of planning the national economy labor expenditures are taken into account in the indicators of the number of workers, as well as of the time worked (the number of average annual workers, man-days, man-hours). If we have data on the expenditures of work time\* on the production of individual types of products, it is possible to establish the total amount of living and embodied labor being expended at all stages of production of the corresponding products. The actual labor expenditures, which are mixed according to skills and intensity, can be reduced to uniform labor. In other words, labor should be reduced. This will make it possible to compare the quantitative expenditures of labor on the production of individual types of products from the viewpoint of the socially necessary work time.

Thus, the problem of determining the socially necessary labor expenditures reduces, first, to finding the total expenditures of labor on the production of products in units of time worked and, second, to reducing the time worked to the socially necessary work time.

In principle the determination of the total labor expenditures on the production of products is entirely possible from both the theoretical and the practical point of view. However, so far there is no elaborated and practically acceptable method of determining the socially necessary labor expenditures. This is explained not by the methodology, but by the shortcomings of the organization of the appropriate accounting and statistics of the expenditures of work time on the production of products.

Let us assume that the necessary accounting of work time has been set up and at present the possibility already exists of determining the total labor expenditures on the production of all types of products directly in the indicators of the time worked. Then the question arises, to what extent can these indicators be used in price formation? Obviously, it is impossible to directly construct prices on such indicators if only because a price is not a labor, but a monetary form of expression of expenditures. These indicators could be used with a certain conditionality for the analysis of the forming correlations of prices, but the conclusions from such an analysis would be of too general a nature and would be little suited for price formation. The calculations of the total labor expenditures on the production of products above all need to be used for the purpose of analyzing the efficiency of the use of labor resources in the national economy and, in particular, for the purpose of optimizing the plans of their use and the increase of social labor productivity. For price formation the indicators of socially necessary expenditures should be used in monetary form.

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Here and below we have in mind the expenditures of the work time of all categories of personnel, including engineering and technical personnel, employees and auxiliary workers.

Under the conditions of commodity-money relations the expenditures on the production of products in the final analysis are formed on the basis of the monetary expenditures which express the living and embodied labor. The expenditures of living labor are expressed in wages and the net income. Here wages are the amount objectively formed in the national economy and are mainly determined by the level of labor productivity and the actual distribution of the national income. As to the amount of net income, it depends on the distribution of the national income on a product for itself and on the product for society, which has various forms of realization in the prices for individual types of products (turnover tax, rent, profit and so on).

In the process of production ties the formation of expenditures follows above all the line of material expenditures and wages, which in total also constitutes the indicator of the production cost of products. The reflection in expenditures of the product for society is of a multistage nature which corresponds to the different stages of the production of products. Also based on this peculiarity is the practical solution of the problem of bringing prices closer to the socially necessary expenditures, which reduces, first, to their coordination with the indicator of the production cost of products and, second, to the substantiation of the necessary amount of profit and other forms of net income in the price.

The coordination of prices with the expenditures on the production of products is not the sole criterion of the correct construction of prices. Prices should not only be coordinated with the expenditures, but also reflect the economically substantiated value correlations to analogous and interchangeable types of products.

Assume that the prices for various types of fuel--coal, fuel oil, gas--are established only on the basis of the expenditures on the extraction of these types of fuel. In this case coal would be several times more expensive than fuel oil and gas (converted into conventional fuel). Given these prices, all enterprises would attempt to use gas and fuel oil as the cheapest types of fuel and would refuse to use coal. From the point of view of the consumer these prices would be incorrect. Therefore the problem also arises of establishing correlations which would ensure an equal value of analogous and interchangeable types of products in the process of their use and consumption.

A third important condition which must be taken into account in price formation is the need to establish prices which stimulate the production and consumption of the most advanced types of products, technical progress and the increase of product quality. Prices cannot be inert to the interests of the development of the economy, to the tasks which have been set in the state plans and are being solved in the practice of building the economy. They are to actively promote the implementation of these tasks and the formation of the optimum proportions in the national economy.

The role of prices in the stimulation of technical progress should be manifested so that the creation of advanced equipment and new types of products would be economically more advantageous, while their use would be more efficient as compared with old equipment.

And, finally, prices need to be coordinated with the principles of the economic policy of the management of enterprises and with the forms of cost accounting. As was said above, the revision of wholesale prices was dictated by the need to bring them into line with the new system of the planning and economic stimulation of the development of production.

The old prices conformed to the old forms of cost accounting, the new forms of cost accounting also required the appropriate prices.

Planned price formation cannot be carried out by itself. It requires the setting up of the appropriate organs. In connection with the increase of the role of prices in the management of the economy under the conditions of the new system of planning and economic stimulation a unified system of pricing organs was set up for the first time in the country.

In order to manage the work in the area of price formation the State Committee for Prices attached to USSR Gosplan was set up, while in each republic committees for prices attached to the union republic Gosplans were set up. The State Committee for Prices was entrusted with the approval of the wholesale and retail prices for the most important types of industrial products. In the area of the wholesale prices for the means of production it approves the prices for coal, gas, petroleum and petroleum products, metals, the rates for electric power, the prices for products of the chemical industry, timber and lumber, as well as for products of machine building. The amount of these products is approximately 80 percent of the total production volume of heavy industry. For consumer goods the State Committee for Prices approves the prices for bread, flour, groats, sugar, meat, fish, butter, vodka and liqueur-vodka items, fabrics, knitted wear, shoes, radio items, motorcycles, bicycles, watches and so on. These goods constitute half of the total commodity turnover.

The concentration of the approval of the prices for the bulk of products in the State Committee for Prices makes it possible to efficiently implement a uniform policy in the area of price formation and to regulate the dynamics and level of the entire system of prices as a whole. The assurance of unity of the policy of prices in all links of the national economy is the most important task of the State Committee for Prices. The republic committees for prices approve the wholesale prices for the products of enterprises of republic subordination, as well as the retail prices for the remainder of the consumer goods.

In republics having an oblast division, divisions of prices attached to the oblplans [oblast planning commissions] have been set up. They deal with questions of the price formation for shoes, fruit and some types of products of industry of local subordination.

The functions of the republic committees for prices and the divisions of prices attached to the oblplans are not limited to the list of products, the price formation of which belongs to their immediate jurisdiction. The activity of the indicated committees and divisions goes beyond this list. They are obliged to ensure the verification of the economic substantiation of the current prices, including those approved by the State Committee for Prices and the ministries. The republic committees for prices are enlisted for the drafting of procedural and standardized documents on price formation.

The task is to see to it that all the links of the pricing organs are a unified system of the organization of planned price formation in the country.

Along with the approval of prices an important section of the work of the pricing organs is the drafting and implementation of measures aimed at the constant improvement of the system of prices, so that they would always be coordinated with the socially necessary expenditures and would constantly conform to the changing conditions of the production and sale of products.

The problems of the timely revision of prices assume particular urgency under the new conditions of the operation of industry. The point of prices should always be directed toward the stimulation of technical progress, the increase of product quality and the efficient use of raw materials and materials.

The improvement of the system of prices requires the improvement of the calculation of the production cost of products. This is also among the tasks of the State Committee for Prices and the pricing organs.

The adherence of all enterprises and organizations to price discipline is the most important condition of the conducting of a unified policy in the area of price formation.

The pricing organs have been entrusted with the organization of control over the adherence to prices, as well as the verification of the current procedure of their establishment by all enterprises and economic organizations. The violation of prices undermines the principles of the planned management of the economy and the principles of cost accounting and contradicts the new system of the economic stimulation of production.

### CHAPTER 3. PRODUCTION COST AND PRICE

The enhancement of the role of profit under the new conditions of the operation of enterprises does not diminish the significance of such a category as production cost. This was emphasized in the report of A. N. Kosygin at the September (1965) CC CPSU Plenum: "... the establishment of the quotas on profit not only does not reduce, but, on the contrary, enhances the significance of the problem of decreasing the production cost. The decrease of the production cost of products is the most important task of economic managers. Special attention should be devoted to the indicator of production cost in the technical, industrial and financial plan of the enterprise."

Consequently, under the new conditions of the operation of enterprises it is also necessary to deal daily with the calculation of labor expenditures, the expenditures of raw materials, materials, fuel and so on and to solve in an economically more competent manner than before the questions of the location of production, cooperation and specialization. This means that the conversion to the new principles of price formation does not ignore the categories of production cost and current expenses. On the contrary, the entire new system of management is aimed so as to achieve a reduction of expenditures, a decrease of production cost and the implementation of a strict economy drive.

If we consider that the expenditures of enterprises on the production of products is from 80 to 85 percent of the total amount of social expenditures, it becomes understandable how great the role of production cost is in the formation of the socially necessary expenditures at an enterprise. Therefore, in order to solve the problem of bringing prices closer to the socially necessary expenditures it is necessary to improve the calculation of the production cost.

However, the role of this indicator in the planning and management of the national economy is clearly underestimated. The standardized and procedural documents on its calculation have long become obsolete and need to be revised. It is especially important to regulate the calculation in nonferrous and ferrous metallurgy, the chemical and petrochemical industry, since the enterprises of these sectors perform complicated technological processes, which is connected with the existence of a large number of stages



of production and with the comprehensive use of raw materials for the production of various types of products.

In recent times the so-called "boiler method" of calculation has become widespread in the practice of the plant planning of expenditures. Here not only is the calculation depersonalized, but cost accounting is obviously violated.

For the purpose of improving the calculation of the production cost it is necessary above all to specify the basic methodological principles of the more detailed calculation of the expenditures on the production of products. As is known, a considerable portion of the material expenditures and the expenditures on wages is lost in shop-wide and plant-wide expenses which in turn are distributed usually in proportion to the wages of the main production workers. In our opinion, it is expedient to separate these expenses from the comprehensive items and to take them into account more specifically in the expenditures on the production of products on the basis of the peculiarities of the individual sectors.

In connection with the fact that the majority of the expenditures on the production of products consists of the expenditures of raw materials and materials, first of all during the calculation it is necessary to interpret precisely these expenditures. But since their accounting has not yet been set up, this also creates certain difficulties in the work on price formation.

The organization of the accounting of material expenditures in the national economy--both in the sphere of production and in the nonproductive sphere--becomes all the more necessary. This accounting should be carried out in a breakdown by sector and department, as well as according to the most important types of products. This is especially important under the conditions of the introduction of balance sheet settlements, which characterize intersectorial ties.

In the process of revision of the wholesale prices when substantiating the expenditures on the production of products a number of new features which specify the production cost of products were stipulated.

For example, prior to 1967 in the expenditures on the extraction of minerals the expenses for geological prospecting work were not taken into account. As a result in the extractive sectors of industry the production cost of products, as well as the value of the fixed capital were artificially understated. In developing the new wholesale prices for the products of the extractive sectors of industry (gas, coal, iron ore, nonferrous metallurgy) the additional expenditures on geological prospecting work were included in the production cost.

These expenditures will be taken into account in the production cost of a unit of production at fixed rates. The following rates have been approved for individual types of products:

petroleum--from 65 kopecks to 3 rubles 40 kopecks per ton;

gas--1 ruble per 1,000 m<sup>3</sup>;

iron and manganese ore--15 kopecks per ton;

chromite ore--25 kopecks per ton.

It should be pointed out that at this stage of the revision of wholesale prices the expenditures on geological prospecting work are not taken fully into account. The cited norms include only that part of the expenditures which pertains directly to the development of deposits for industrial exploitation. This constitutes approximately 30 percent of all expenditures on geological exploration. Obviously, in the future it will be necessary to specify the composition of these expenditures and that part of them, which should be included in the production cost of products.

In order to substantiate the level of the new wholesale prices the production cost of products was also made more specific in connection with the conversion of industry to the new procedure of management. Thus, there were excluded from the production cost the expenditures not pertaining directly to the production process, which under the new conditions should be recovered through the profit. In those sectors of industry in which in conformity with the instructions it was permitted to ascribe to the production cost of products the losses from housing and municipal services (the coal industry, logging, the peat industry and others), these losses were excluded from the calculation. In all sectors of industry the interest for the use of bank credit was not taken into account in the production cost.

The new thing in the approach to the calculation of expenditures during the revision of wholesale prices consisted not only in the need to define more precisely the nature of the expenditures forming the indicator of production cost, but also in determining the sectorial production cost which is taken as the basis of the level of prices. As is known, the production of the same product at different enterprises is not the same. Thus, the production cost of the extraction of coal fluctuates within the limits of 1:8, iron ore--1:5, the production of open-hearth and Bessemer steel--1:1.7. Considerable differences in production cost exist not only in the extractive, but also in the processing sectors, especially in machine building.

The production cost is formed under the influence of a large number of factors, the most important of which are the natural conditions, the location of the enterprise, the composition of the fixed production capital and the technological process specified by it, as well as the scale of the production of products. All these are objective factors which do not depend on the organization of the work at enterprises, and their influence on expenditures, as well as the extent of the influence can always be ascertained.

Meanwhile the amount of the expenditures depends on such factors as the skill of the workers, the production program, the organization of production and so on. As distinct from the first group these factors are connected to a considerable extent with the organization of production at the enterprise itself, and it is much more difficult to establish the extent of their influence on the production cost. However, they do not have as great an influence on the differences of the production cost of products as the first group of factors. Therefore, the fluctuations of the production cost at different enterprises under the influence of the factors of the second group can be recognized as normal.

Sharp fluctuations of the production cost are usually the result of the effect of the first group of factors, that is, of objective conditions not dependent on the operation of enterprises.

The question arises, which production cost should be taken as the basis of prices--the highest, the lowest or the average?

We know that before for substantiating prices the average sectorial production price was taken as the basis. It was the weighted average of the expenditures on the production of the given type of product. However, as practice showed, the universal orientation toward the average sectorial production cost in the establishment of the prices for the products of the sectors of the extractive industry could not provide the necessary cost accounting conditions for the majority of enterprises of the sector and, consequently, the conversion of these enterprises to the new conditions of planning and economic stimulation.

In 1964 the production cost of individual types of products of ferrous metallurgy at RSFSR enterprises fluctuated within the following limits:

Description of product	How many times the maximum production cost is higher than the minimum production cost
Iron ore. . . . .	4.8
Conversion cast iron. . . . .	2.0
Open-hearth and Bessemer steel. . . . .	1.6
Electric steel. . . . .	4.8
Girders and channels. . . . .	1.7
Medium-grade steel. . . . .	2.3
Small-section steel . . . . .	2.0

If, for example, we establish the prices in the sectors of the extractive industry (coal, iron ore, petroleum extraction, gas and so on) on the basis of the average sectorial expenditures, only a small number of enterprises (no more than 20 percent) would have a profitability close to the average

norm, while the profitability of the majority of enterprises would deviate from the average sectorial profitability by many times in one direction or the other. For those enterprises located in the most favorable natural conditions, the profitability would considerably exceed the average norm, while the remainder of the enterprises would be unprofitable. Therefore, the prices in the extractive sectors can, as a rule, be established on the basis of zonal expenditures (zonal, regional prices), that is, the average expenditures of the enterprises operating in a given basin, zone or region.

It is possible, of course, in the indicated sectors also to structure prices on the basis of the average sectorial expenditures, but with allowance made for the fact that these prices will be used only for settlements with consumers. As for producer enterprises, for them along with these prices it will be necessary to establish so-called accounting prices (for each enterprise individually), which are calculated on the basis of their individual expenditures.

Under the conditions of the effect of accounting prices each enterprise makes settlements with the sales organization at its individual prices. At the same time the sales organization sells products to the consumer at the average sectorial prices.

Thus, by the establishment of accounting prices it is possible to create the conditions for the profitable operation of each enterprise, in spite of the great differences in the expenditures on the production of products. Here the prices for consumers are established on the basis of the average sectorial expenditures.

However, accounting prices also have substantial shortcomings. Above all they have a tendency to be equalized with the individual expenditures of enterprises and thereby seem to be adjusted to the current costs which are assigned to the enterprises. With accounting prices a break occurs in the economic ties of the producer of the product and the consumer. Thus, the producer sells the product at the accounting price, while the consumer buys this product at the wholesale price. As a result the influence of commodity-money relations on production is weakened.

All this attests that accounting prices should be used only in those instances when it is impossible without their introduction to ensure the profitable operation of enterprises with sharp differences in expenditures.

That is why in the extractive sectors of industry during the exploitation of different deposits it is economically more correct to structure prices on the basis of the average zonal expenditures. The establishment of prices on the basis of zonal expenditures ensures profitable operation to the majority of enterprises, but is connected with the existence in the country of several levels of prices (zonal, belt) for analogous types of products. Structured on the basis of zonal expenditures are the prices for coal, ferrous metal ores, timber, cement and several other types of products

of the sectors of the extractive industry. For example, the wholesale prices for coal are established according to 61 basins and deposits. They are from 1 ruble 60 kopecks per ton to 20 rubles 20 kopecks. The prices for iron ore are differentiated by seven zones and for manganese ore by three.

The wholesale prices for petroleum are differentiated for seven zones within the limits of 8 to 22 rubles. Moreover, the lowest prices have been introduced for the Ural-Volga region and the highest for Sakhalin and Kirgiziya.

The wholesale prices for gas have been established for eight zones--from 3 rubles 50 kopecks to 17 rubles per 1,000 m<sup>3</sup> of recovered gas. The rates for electric power for industry in conformity with the expenditures are differentiated according to 15 rate zones. The differences in the level of the rates are determined by the differences in the level of expenditures on the production of electric power, which depend on the rating of the electric power stations and the production volume of electric power, the level of expenditures on the transmission of electric power, the proportion of the output of electric power at GES's and thermal electric power stations and the regional differences of the cost of fuel for thermal electric power stations. At the same time the rates for electric power for domestic needs and agriculture, as a rule, are uniform for the entire territory of the USSR.

For thermal power individual rates have been established for each of the 86 regional power administrations. This is explained by the differences in the cost of fuel, which constitutes 70-80 percent of all the expenditures on the production of thermal power, as well as by the differences in the rating and technical level of the thermal electric power stations.

Belt prices have been introduced for some types of products. Thus, the prices for timber have been established for five belts, with the lowest in the main logging regions (Arkhangel'skaya Oblast, Krasnoyarskiy Rayon) and the highest in the regions without forests (Central Asia, Kazakhstan, the regions of the Far North). The gap between the extreme belts in the level of prices is on the average about 50 percent.

The wholesale prices for cement are differentiated according to eight belts. Moreover, the difference in the prices between the extreme belts for the main types of cement is calculated as 1:3. The belt differences are determined by the difference in the level of expenditures on the production of cement in individual regions, as well as by the difference in the level of transportation costs. To the first belt belong the regions of the location of the largest cement plants, and to the eighth the regions of the Far East and Far North, in which there is used, as a rule, cement brought in from far away.

Along with the orientation of prices toward zonal expenditures for the first time in the practice of price formation there was used the principle of the structuring of prices on the basis of the expenditures of enterprises

which operate under conditions worse than the average, as well as within individual zones and regions.

Here we have in mind, of course, not the worst enterprises, but those for which the production volume of products and the technical supply are close to the average indicators of the enterprises of the given sector. The establishment of prices on the basis of enterprises operating under conditions worse than the average ensures the receipt of a surplus profit at all enterprises operating under the best conditions. This surplus profit is withdrawn for the budget in the form of fixed (rent) payments.

However, the principle of the orientation of prices in the extractive sectors of industry toward the expenditures of the enterprises operating under relatively worse conditions cannot be widely used. The structuring of prices with allowance made for such expenditures entails the increase of their overall level, which is far from making no difference in price formation. Moreover, great amounts of net income are formed in the prices in the form of rent payments. The expenditures in the national economy are increased by the same amount.

If the use of this principle leads to an increase of the level of prices, which contradicts the conditions of the sale of products and violates the normal economic ties between sectors and spheres of the national economy, it cannot be taken as the basis for the structuring of prices.

For example, the wholesale prices for coal cannot be established on the basis of the expenditures of coal mines operating under relatively worse conditions. This would make it necessary to considerably increase the prices for coal, which in turn would entail an increase of the prices for gas and fuel oil and, consequently, of the overall level of prices in industry. Thus, the wholesale prices for coal can be established only on the basis of zonal expenditures, that is, the expenditures on the mining of coal in each basin and deposit.

Thus, the principle of the orientation in the extractive sectors toward the expenditures of the enterprises operating under relatively worse conditions should be used with allowance made for all the economic results of the establishment of prices on the basis of these expenditures. In the process of the revision of wholesale prices it was possible to pursue this principle only in two sectors--the oil drilling and gas industries. With the existing correlation of expenditures the level of prices for petroleum and gas in the final analysis is determined by the prices for coal, which exceed by several times the production cost of gas and petroleum. Under these conditions it was possible to orient the prices for gas and petroleum toward the expenditures of fields operating under relatively worse natural conditions. The enterprises located under more favorable conditions will pay rent payments. For enterprises of the oil drilling industry these payments have been established within the limits of 70 kopecks to 14 rubles per ton, while for enterprises of the gas industry they are from 1 ruble 50 kopecks to 12 rubles per 1,000 m<sup>3</sup>.

Since in the sectors of the processing industry (machine building, chemistry, light and food industry) the influence of the natural factor does not affect production cost to this extent, the average sectorial expenditures are taken for substantiating prices in these sectors. Moreover, they proceeded from the fact that the price reflected to the greatest extent the average technical level and status of production at the given stage. Thus, a product that is unprofitable attests to the existence of shortcomings in the organization of the production of this product and its distribution, which should be eliminated.

When the level of prices for individual types of products was being substantiated, the peculiarity of the production and sale of the products and their influence on the expenditures were taken into account. For example, in sectors which include a number of successive stages of production (redistributions), in order to establish the wholesale price of products of individual stages of production, which are sold in part on the outside (the production of cast iron and steel ingots at enterprises of ferrous metallurgy and others), there was taken as the sectorial production cost not the production cost of the commodity part of the product, but the total production cost of the entire gross production of the given stage of production. It includes the additional expenditures connected with commodity output (for example, the expenditures on the teeming of steel), as well as the average nonproductive expenditures for the sector.

At times a product characterized by a wide variety is produced at enterprises with differing technical equipment and a different organization of production. In such cases the wholesale prices were determined on the basis of the total production cost of this group of items and the standard costings, which were structured with allowance made for the norms of productivity of the equipment and the consumption of raw materials of enterprises that are under approximately the same production conditions, which correspond to the level of technical development of the sector during the period of the effect of the new prices.

The problem of bringing prices closer to the socially necessary expenditures urgently requires the improvement of the calculation of expenditures in the national economy. On this level the procedural and standard basis of the calculation of the production cost should above all be put in order. The existing procedural instructions on the planning, accounting and calculation of the production cost of industrial products are obsolete. They should be revised again and brought into line with the new requirements of management.

On the basis of the general procedural instructions it is necessary to draft sectorial instructions on the calculation of the production cost, as well as standards for them, so as to ensure methodological unity in the determination of the production cost at each enterprise.

In connection with the regulation of the standard basis of the calculation of the production cost it is necessary to dwell on questions of the revision of the norms of amortization and the revaluation of fixed capital.

The current norms of amortization deductions for the fixed capital of the USSR national economy were introduced on 1 January 1963. The rate of technical progress (obsolescence) was not taken into sufficient consideration in them. Many norms of amortization are calculated on the basis of a 12-year service life of machinery and equipment, while for some types of means of production they are calculated on the basis of a longer period. To this it should be added that the norms of amortization were drawn up under the conditions of understated prices for the products of the raw materials sectors, which could not but affect the correctness of their calculation.

Thus, if on the whole the norms of amortization possibly do not need to be changed, for some types of fixed capital they should undoubtedly be revised and established with allowance made for the actual service life of fixed capital and the expenditures on their maintenance in the proper condition.

The introduction of the new wholesale prices creates the need to revalue the fixed capital. The last revaluation of the fixed capital of state and cooperative enterprises (except for budget-carried organizations and kolkhozes) was carried out according to the status on 1 January 1960. The fixed capital of kolkhozes was revalued according to the status on 1 January 1962.

During the revaluation of the fixed capital they proceeded from the wholesale prices for industrial products, which were introduced on 1 July 1955, and the estimated prices established on 1 January 1956. The need to revalue the fixed capital is connected not only with the fact that wholesale prices for industrial products underwent fundamental changes, but also with the fact that the most important indicator of the activity of enterprises--profitability--is calculated as a percentage of the producer goods.

The determination of the production cost for substantiating prices cannot be reduced to the mathematical methods of finding the average expenditures. As is evident from what was said above, economic problems are put in the forefront, above all the problem of differentiating the expenditures and the prices for the given type of product.

If there occur sharp fluctuations of expenditures, at the basis of which are objective conditions, it is necessary to establish zonal, belt or regional prices. However, here it is impossible to proceed only from the differentiation of expenditures; it is necessary also to take into account the acceptability of the differentiated prices to consumers, as well as the value correlations being formed. This means that different prices cannot be in effect for the same product at the same place. With allowance made for all these circumstances the zonal expenditures should also be substantiated. In those instances when there are no extreme differences in the



production cost of a product, uniform prices are established which are based on the average sectorial expenditures.

In substantiating the production cost it is important to determine the group of enterprises, the expenditures of which should be included in the calculation of the sectorial or zonal production cost. At first glance it would seem that it is necessary to include in the calculation of the average expenditures all the enterprises producing the given type of product. However, in reality this question is much more complicated.

Thus, at times the majority of products are produced at enterprises with approximately the same production cost, but the production cost of an insignificant portion of the enterprises producing analogous products is many times higher. If the average sectorial production cost is calculated with allowance made for all the enterprises, the prices established on this basis will not recover the costs of the enterprises with a high production cost and for the majority of remaining enterprises will be overstated. It is more correct here to base prices on the expenditures without regard to the enterprises with a high production cost. Along with this it is necessary to study the reasons for high expenditures.

In practice cases are encountered when the same type of product is produced according to different technological schemes, which determines the unequal production cost. Which expenditures should be taken here for the establishment of prices? If prices are established on the level of low expenditures, the production with a high production cost will be unprofitable. Meanwhile it is incorrect to abandon as unprofitable a significant portion of the production of a given product; the prices for it should be based on higher expenditures. Here, of course, lower norms of profitability can be stipulated.

Thus, the substantiation of prices from the viewpoint of the sectorial expenditures on production is a creative process. Here it is necessary to have an extensive comprehensive economic analysis of the possible consequences of the establishment of prices with allowance made for different variants.

#### CHAPTER 4. THE ECONOMIC SUBSTANTIATION OF PROFITABILITY AND ITS CALCULATION IN PRICE FORMATION

In spite of the fact that profit occupies in a price a more modest share than the production cost (15-20 percent), its economic role in the cost accounting activity of enterprises is exceptionally great. The role of profit especially increased with the conversion of industry to the new system of the planning and economic stimulation of the development of production.

Under the new conditions of the planning and economic stimulation of the development of production prices should ensure the receipt of a profit by every normally operating enterprises and at the same time should not serve as the source for the formation of an undeservedly high profit, as well as not be the cause of the unprofitableness of an enterprise.

Until recently the amount of profit in a price was planned according to the principle of the "least profitability" to the production cost. This motivated the need to exert pressure on enterprises for the purpose of reducing the production cost and increasing the profitability (it was usually planned in the amount of up to 5 percent of the production cost), as well as by the objective historical conditions, under which it was necessary to solve the problems of wholesale prices at different stages of the building of socialism.

Some economists believe that the approach to the planning in prices of the profitability from the point of view of the least norm is erroneous. But in reality the minimum profitability in price formation was the expression of the objective conditions under which it was necessary to solve the problems of price formation for industrial products.

In the history of the introduction of cost accounting at enterprises of heavy industry there were two periods when a profitability was achieved through a sharp increase of wholesale prices. These increase occurred in 1936 and 1949. In solving the problem of profitability of heavy industry through an increase of prices it was of course impossible to envisage a high profit. A high profit made it necessary to increase wholesale prices all the more, and this would have resulted in a contradiction with the system of retail prices and prices in agriculture and with the level of

expenditures in other spheres of the national economy. In both cases the increase of wholesale prices was regarded as a temporary measure, after which prices should be reduced.

Was it possible under such conditions to solve the problem of profitability from other points of view? Of course not. It was necessary to approach the planning of the profit only from the point of view of least profitability, although the role of profit and the introduction of complete cost accounting in such an approach were limited. Under the conditions of a low profitability many enterprises either were unprofitable or had a small profit and in essence were excluded from the sphere of cost accounting. An especially difficult situation was created at enterprises where the amount of profitability did not exceed 1-1.5 percent. These enterprises were always on the verge of being unprofitable, and they were threatened with the shift from profitable enterprises to unprofitable ones. But this meant that economic and moral measures of influence would follow it. Owing to this the unprofitable enterprises felt better than those with a small profit.

At present industry has achieved a relatively high profitability. Under these conditions it is necessary to plan a profitability in amounts which would provide all normally operating enterprises with a profit sufficient for the payment for producer goods and for the formation of incentive and other funds. Thus, under present conditions the profit should be planned from the viewpoint of normal profitability.

Another fundamental change in the planning of profitability is the fact that it is established by ascribing the profit to producer goods, while previously in calculating the profitability they proceeded from the production cost.

The new approach to the determination of profitability means that the capital-intensity of production is taken into account in the prices. However, it is impossible to believe that the indicator of profitability, which is calculated with respect to the production cost, in practice is outdated. This indicator should be taken into account in the substantiation of prices and all the economic consequences connected with their introduction.

In order to substantiate the standard amount of profitability, which should be stipulated in prices, it is necessary to coordinate it with those standards of the distribution of the profit, which will be adopted at enterprises. For example, with a 5-6 percent payment for assets the profitability can be set in the amount of about 10 percent of the producer goods, so that the remaining 4-5 percent could be used for the formation of the assets of the enterprise. In this case it is necessary to substantiate the standards themselves. Thus, it is quite possible to substantiate by the appropriate economic calculations the standards of the fee for producer goods, as well as the standards for the formation of the assets of enterprises.

But even for similar enterprises the profitability is not equal. Therefore, in order to create the conditions which ensure under the new conditions the operation of a group of enterprises with identical standards, in the planning of the profitability there should be stipulated the net surplus of the profit beyond the standards (in our example 10 percent), which could "amortize" the normal fluctuations of the profitability of similar enterprises.

The question on the amounts of the net surplus of the profit and, consequently, of the level of profitability in the prices for industrial products remains open. Its solution rests on the problem of the economic substantiation of the profitability, that is, the determination of the average norm of net income, which can be taken for the calculation of the overall level of the prices for industrial products.

We know that the net income in the national economy is realized in the form of profit and the turnover tax. Therefore, the question of the amount of profit under the conditions of invariable prices which include the turnover tax can within a certain framework be solved through the partial transformation of the turnover tax into profit. However, its distribution in the prices for some types of products is extremely uneven. This fact undoubtedly limits the transformation of a part of the turnover tax into a profit through the increase of its amount in wholesale prices.

If we do not take into account the sectors, the prices for whose products have a relatively high level of turnover tax, the average norm of net income for the national economy as a whole would be approximately 15 percent of the producer goods. Some economists think that with such a level of profitability the prices for industrial products will be understated, while the profit in the prices for the products of heavy industry in these amounts will nevertheless be lower than the net income in light and food industry.

In order to equalize the proportions of the net income in the prices for products of group A and group B, it is proposed to increase the prices for the products of heavy industry, that is, in essence, to "absorb" a part of the net income of enterprises of group B. However, this measure is not realistic. During the revision of prices it was discovered that the expenditures on the production of industrial products of group B as a result of the increase of the prices for the products of heavy industry increase negligibly. Thus, if the prices for the products of heavy industry were increased by 20 billion rubles, the expenditures of light and food industry would increase by 500 million rubles. In order to withdraw 10 billion rubles of the turnover tax from the prices for the production of light industry it would be necessary to increase the prices for the products of heavy industry by five times.

The proposals on the increase of the amount of profit in the prices for the means of production are often substantiated by the fact that the increase of prices in heavy industry does not affect the system of prices for the national economy as a whole. It is hardly possible to agree with such an

argument. Estimates show that the level of wholesale prices reacts sharply to any increase of the amount of profitability.

The level of profitability in heavy industry by the time of the revision of the wholesale prices was approximately 10 percent of the producer goods, while some sectors of the extractive industry were unprofitable. If the profitability for industry as a whole is maintained, for example, at the amount of 10 percent, and at the same time the prices for the products of machine building are reduced, while those for the products of the extractive industry are increased, the level of prices on the whole for the products of heavy industry would increase by 9-10 percent. The increase of profitability, as the estimates showed, influences the level of wholesale prices in the following manner: an increase of prices on the average by 2.5 percent corresponds to a 1-percent increase of the profitability for the products of heavy industry. Thus, the equalization of the profitability by sectors and its increase, say, by 5 percent would result in an increase of the overall level of prices by more than 20 percent.

The point of view, according to which a change of the wholesale prices for the means of production under all conditions does not affect the system of price formation and therefore any increase of prices can be permitted, is not substantiated. The wholesale prices for the means of production are closely connected with retail prices, with the prices for agricultural products, with the cost of construction and so on. There is not a single sector of heavy industry which would not produce consumer items. Thus, all durable goods, goods for cultural and domestic purposes and household use are manufactured by enterprises of ferrous and nonferrous metallurgy, chemistry, machine building, the woodworking industry and so on. Therefore, an increase of the prices for the products of heavy industry would cause a rise in the prices for the indicated goods, while an increase of the prices for the products sold to agriculture would cause a rise in purchase prices, which cannot but affect retail prices. In other words, an increase of prices in one link of the economy causes a chain reaction of their universal increase.

In our country there occurs the opinion that an increase of prices by the increase of the profit will cause a rise in the proportion of the net income in the national product and will create the conditions for the profitable operation of all enterprises. However, this is far from being so. The proportion of the net income in the national product is determined primarily by the distribution of the national income, and not by the level of prices. Therefore, there must be a comprehensive approach to the question of the substantiation of profitability and the level of wholesale prices for industrial products.

The problem of the level of profitability in the prices for the products of individual sectors is of great importance in the planning of profitability. In the revision of wholesale prices some economists proposed to stipulate in prices a unified norm of profitability. In their opinion, a unified

norm of profitability should be stipulated for all sectors and types of products. This was motivated by the fact that prices which are structured according to a "unified principle" seem to more accurately reflect the socially necessary expenditures on the production of products and are more applicable in calculations for the substantiation of the efficiency of production. Such a mechanical approach to the planning of the norm of profitability would greatly simplify the work in price formation, but would not lead to an improvement of prices, since the entire problem is reduced here to the substantiation of a unified average standard of profitability.

In practice in substantiating the profitability for each sector and type of product it is necessary to take into account the entire diversity of economic conditions of production and consumption, deviating from the average norm of profitability. Estimates show that it is necessary to approach the substantiation of the profitability for sectors and types of products differentially and concretely. This is conditioned above all by the specifics of the structure and rate of turnover of fixed and working capital and, as a consequence, by the specific correlation of the value of the producer goods and the current expenditures on production, which is graphically confirmed by the following data for 1965:

(2) Отрасли промышленности	(3) Приходится на рубль товарной продукции		(1) (руб.—коп.)	(6) Во сколько раз производствен- ные фонды больше теку- щих затрат
	производ- ственных фондов	текущих затрат		
	(4)	(5)		
(7) Черная металлургия . . . . .	1—23	0—88		1,4
(8) Угольная . . . . .	1—43	1—30		1,1
(9) Нефтедобывающая . . . . .	7—22	0—69		10,5
(10) Газовая . . . . .	3—26	0—76		4,3
(11) Электроэнергетическая . . . . .	4—33	0—84		5,2
(12) Лесная и деревообрабатывающая . . . . .	1—11	0—92		1,2
(13) Промышленность строительных мате- риалов . . . . .	1—36	0—93		1,5
(14) Легкая . . . . .	0—34	0—91		0,4
(15) Пищевая . . . . .	0—42	0—93		0,4

Key:

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|--|--|
| 1. Rubles--kopecks   | 8. Coal                                |
| 2. Sectors of industry   | 9. Oil drilling                        |
| 3. Per ruble of commodity<br>production                            | 10. Gas                                |
| 4. Producer goods  | 11. Electric power                     |
| 5. Current expenditures  | 12. Timber and woodworking             |
| 6. How many times more producer<br>goods than current expenditures | 13. Construction materials<br>industry |
| 7. Ferrous metallurgy  | 14. Light                              |
|  | 15. Food                               |

It should be pointed out that in the oil drilling industry the producer goods are related to the amount of the annual current production expenditures as 10:1, while in the sewing industry it is 1:7. Under these conditions a profitability in the amount of 15 percent of the producer goods in the oil drilling industry means 100 percent of the production cost, while in the sewing industry it means 2 percent in all. However, with this level of income on the average for the sector it is impossible to ensure the profitable operation for even half of the sewing factories. These factories will be profitable if the average level of profitability to the production cost is stipulated in the amount of 6-8 percent. The situation is the same in other sectors of light and food industry, for which it is necessary to envisage a profitability (to the producer goods) higher than for other sectors of industry. In conformity with the specifics of these sectors it will be from 20 to 40 percent or more of the producer goods.

No less important a factor, which governs the differentiation of the profitability, is the need to establish substantiated correlations of the prices for various types of industrial products, for example, for analogous and interchangeable items, which is dictated not by the expenditures on production, but by the consumer qualities of the products.

True, there are types of analogous products, for which the proper correlation of prices can be established through the differentiation of the profitability within the limits of its average norm (for example, 15 percent) for the given group. However, this cannot be done with respect to the products of such sectors as the coal, oil drilling, petroleum refining and gas sectors. The difficulty here is that the most expensive fuel from the point of view of the expenditures on production--coal--should have a lower price than petroleum and gas. At the same time the expenditures on the mining of a ton of coal (converted into conventional fuel) are somewhat more than four times as much as the expenditures on the drilling for oil, and nearly 20 times greater than the cost for the recovery of gas. With such a correlation of expenditures the prices for these types of products cannot be coordinated within the limits of the average norm of profitability for the sectors under examination, which is confirmed by the sample table on the following page (the figures are arbitrary).

As these data show (they correspond mainly to the actual ratios of the production volumes in the sectors of industry being examined), in order to establish the proper correlation of the prices for coal, petroleum and gas it is necessary to envisage a profitability in the oil drilling industry in the amount of more than 40 percent, in the petroleum refining industry in the amount of 100 percent and in the gas industry in the amount of 250 percent of the producer goods under the condition that the prices for coal will be established on the level of the production cost. The overall profitability for the indicated sectors, including the coal sector, will be 36.8 percent, that is, it will exceed by two times its average norm for industry (15 percent of the producer goods). If a profit is also envisaged in the coal industry, the profitability and prices in other sectors of the fuel industry need to be increased even higher.

(1) Отрасли промышленности	(2) Производительные фонды в условных единицах	(3) Затраты на производство в условных единицах	(4) Прибыль (15% к фондам)	(5) Соотношение объемов продукции, соответствующее взаимовыравниваемым ценам	(6) Стоимость продукции по взаимовыравниваемым ценам в условных единицах	Прибыль с учетом взаимовыравниваемых цен (7)	
						(8) в условных единицах	(9) в процентах к производственным фондам
(10) Угольная . . . . .	52	45,0	7,8	1,0	45,0	—	—
(11) Нефтедобывающая . .	31	5,3	4,7	0,4	18,0	12,7	41
(12) Нефтеперерабатывающая . . . . .	13	18,0	2,0	0,7	32,0	14,0	108
(13) Газовая . . . . .	4	1,2	0,5	0,25	11,3	10,1	250
(14) Итого . . .	100	69,5	15,0	—	—	36,8	36,8

Key:

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|--|--|
| 1. Sectors of industry   | 7. Profit with allowance made for coordinated prices |
| 2. Producer goods in conditional units   | 8. In conditional units                              |
| 3. Expenditures on production in conditional units                                   | 9. As a percent of the producer goods                |
| 4. Profit (15 percent of the goods)  | 10. Coal   |
| 5. Correlation of the volumes of production, which corresponds to coordinated prices | 11. Oil drilling                                     |
| 6. Value of production at coordinated prices in conditional units                    | 12. Petroleum refining                               |
|  | 13. Gas  |
|  | 14. Total  |

Thus, the prices for coal determine the level of prices for the products of the fuel and power sectors, on which to a great extent depends the overall level of the prices for industrial products. This, in particular, dictates the need to establish the prices for coal with the minimum profitability, which ensures, however, the conditions for the norm operation of the enterprises of the coal industry under the new conditions of management.

In substantiating the norms of profitability for individual sectors and types of products it is also important to take into account socio-economic factors, above all the level of retail prices and the relations of the state with kolkhozes. It is impossible to stipulate a high norm of profitability, if this entails an increase of retail prices or is detrimental to the interests of the development of agriculture. According to the assertions of some economists the accounting of the indicated objective factors means the appearance of subjectivism in price formation. This is motivated by the fact that the extent of this accounting can differ and, consequently, the variants of the solution of the corresponding questions can also be different. As the most "rational" measure it is proposed to structure prices on the basis of logical schemes, that is, schemes divorced from the specific



economic conditions. Such proposals ensue from the fact that a universal nature is ascribed to some theoretical conclusions (which are sometimes correct from a specific point of view), and that is the appearance of subjectivism in economics.

Before beginning the revision of wholesale prices, the State Committee for Prices made numerous calculations using electronic calculators. At the same time the different variants of the change of wholesale prices were checked in conformity with the different methods of calculating the profit in the prices. As estimates showed, the method of calculating the profit does not play a decisive role in the formation of the sectorial levels of prices. These sectorial levels in the final analysis are determined by the production cost. If we proceed from identical changes in the level of prices, the sectorial levels of prices for all the variants will not have great differences. This can be judged from the data characterizing the results of the estimates of the different variants of the change of wholesale prices (see the table on the following page).

In the first variant the estimate was made with allowance made for the following norms of profitability: ferrous and nonferrous metallurgy, oil drilling, petroleum refining and gas industry, machine building, logging, cement and chemical industry--15 percent of the producer goods; the production of electric power, the construction materials industry, the woodworking, pulp and paper industry--10 percent; the coal and peat industry--7.5 percent. In the second variant there was adopted a unified norm of profitability to the producer goods for all sectors--15 percent.

In the third and fourth variants the level of profitability was partially determined in proportion to the producer goods and partially in proportion to the wages. With respect to the producer goods it was taken in the following amounts: the coal and peat industry--5 percent, ferrous and nonferrous metallurgy, the production of electric power, the cement industry and the construction materials industry--7 percent, the oil drilling, petroleum refining and gas industry, timber exploitation, the pulp and paper and the woodworking industry--10 percent, machine building and the chemical industry--12 percent. The profitability for all the sectors was established at the level of 17 percent of the wages. In the fourth variant while maintaining the same profitability to the producer goods the profitability with respect to the wages was taken in the amount of 60 percent.

For all four variants the level of prices in the oil drilling and gas industry was calculated with the identical rent.

From the cited data it is evident that even with different approaches to the determination of the profitability the sectorial levels of prices do not deviate substantially. However, from the viewpoint of creating cost accounting conditions for enterprises, bringing the prices for some types of products in line with the level of retail prices, equalizing the prices for analogous types of products and so on, the differentiation of profitability is of fundamental importance. Thus, if a norm of profitability in

the amount of 15 percent of the producer goods is stipulated in the prices for the products of light and food industry, half of the enterprises will be excluded from the sphere of action of cost accounting. The question of what percentage of profitability is stipulated for the coal industry--8 or 15--is just as fundamental. In the first case the prices for coal are increased by 78 percent, and in the second case by two times. If we take into account that immediately after coal the prices for other types of fuel will creep upwards, this becomes a problem of the general level of prices.

(1) (Цены, действовавшие до 1 июля 1967 г., равны 100)				
(2) Отрасли промышленности	(3) Варианты			
	(4) дифференцированная рентабельность к про- изводственным фондам	(5) рентабельность к про- изводственным фондам по всем отраслям (единая)	(6) рентабельность к за- расотной плате и к производственным фондам	(7) рентабельность к за- работной плате и к производственным фондам
(8) 1. Добывающая . . . . .	148,5	158,4	143,7	160,2
(9) В том числе:				
(10) Черная металлургия . . . . .	140,5	151,8	131,5	148,5
(11) Угольная . . . . .	163,9	183,3	171,7	207,0
(12) Нефтедобывающая . . . . .	264,5	266,2	241,2	248,4
(13) Нефтеперерабатывающая . . . . .	146,1	148,9	135,6	142,2
(14) Газовая . . . . .	505,9	507,0	488,7	496,8
(15) Торфяная . . . . .	109,9	125,5	102,3	120,8
(16) 2. Электроэнергетическая и тепло- энергетическая . . . . .	137,5	161,4	127,6	142,4
(17) 3. Машиностроительная . . . . .	94,1	97,0	95,2	112,9
(9) В том числе:				
(18) Тяжелое машиностроение . . . . .	100,3	103,7	100,2	118,6
(19) Электротехническая . . . . .	91,4	94,0	92,1	107,1
(20) Станкостроительная и инстру- ментальная . . . . .	97,1	100,0	98,4	117,8
(21) Приборостроительная . . . . .	76,1	77,6	79,9	97,9
(22) Химическое и нефтяное машино- строение . . . . .	99,3	103,1	99,9	118,8
(23) Общее машиностроение . . . . .	89,1	91,8	91,1	109,2
(24) Строительно-дорожное машино- строение . . . . .	92,6	95,6	93,4	110,9
(25) Автотракторное и сельскохозяй- ственное машиностроение . . . . .	95,3	98,4	96,7	114,2
(26) Прочие отрасли машиностроения	94,4	97,3	95,5	113,7
(27) 4. Химическая . . . . .	97,0	99,4	93,0	104,3
(9) В том числе:				
(28) Производство синтетических смол и пластмасс . . . . .	82,2	83,4	87,8	96,4
(29) Резино-асбестовая . . . . .	90,3	91,7	99,1	110,9
(30) Прочие отрасли химии . . . . .	100,3	103,7	91,6	102,9
(31) 5. Лесная, бумажная и деревообра- батывающая . . . . .	102,1	108,2	108,4	127,3

[Continued on following page]

(2) Отрасли промышленности	(3) Варианты			
	(4) дифференцированная рентабельность к про- изводственным фондам	(5) рентабельность к про- изводственным фондам по всем отраслям (единая)	(6) рентабельность к за- работной плате и к производственным фондам	(7) рентабельность к за- работной плате и к производственным фондам
(9) В том числе:				
(32) Лесозаготовка . . . . .	108,4	115,2	116,5	137,9
(33) Целлюлозно-бумажная . . . . .	108,2	111,7	108,0	123,9
(34) Прочие отрасли лесной промыш- ленности . . . . .	95,0	101,3	102,1	120,0
(35) 6. Промышленность строительных материалов . . . . .	109,7	119,0	108,1	124,3
(9) В том числе:				
(36) Цементная . . . . .	106,9	110,1	96,1	110,1
(37) Прочие отрасли промстроймате- риалов . . . . .	110,2	120,6	110,4	127,9
(38) Итого тяжелая промышлен- ность . . . . .	113,8	120,4	112,4	128,9

Key:

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|--|---|
| 1. Prices in effect until<br>1 July 1967 equal 100                 | 21. Instrument making   |
| 2. Sectors of industry   | 22. Chemical and petroleum<br>machine building                |
| 3. Variants  | 23. General machine building                                  |
| 4. Differentiated profitability<br>to producer goods               | 24. Construction and road<br>machine building                 |
| 5. Profitability to producer<br>goods for all sectors<br>(unified) | 25. Tractor and agricultural<br>machine building              |
| 6. Profitability to wages and<br>producer goods                    | 26. Other sectors of machine<br>building                      |
| 7. Profitability to wages and<br>producer goods                    | 27. Chemical  |
| 8. Extractive  | 28. Production of synthetic<br>resins and plastics            |
| 9. Including   | 29. Rubber-asbestos   |
| 10. Ferrous metallurgy   | 30. Other sectors of chemistry                                |
| 11. Coal   | 31. Timber, paper and wood-<br>working                        |
| 12. Oil drilling   | 32. Timber exploitation                                       |
| 13. Petroleum refining   | 33. Pulp and paper  |
| 14. Gas  | 34. Other sectors of the timber<br>industry                   |
| 15. Peat   | 35. Construction materials<br>industry                        |
| 16. Electric power and thermal<br>power                            | 36. Cement  |
| 17. Machine building   | 37. Other sectors of the con-<br>struction materials industry |
| 18. Heavy machine building   | 38. Total for heavy machine<br>building                       |
| 19. Electrical engineering   |   |
| 20. Machine tool and tool<br>building                              |   |

The revision of wholesale prices revealed that the prices for coal at the present are a peculiar backbone of the general level of prices. As the estimates showed, as a result of increasing the prices for coal only by 78 percent the general level of prices for the products of heavy industry increased by 8 percent. Under these conditions each percentage of profitability in the prices for coal assumes a fundamental importance.

Just as critical is the question of the profitability in the prices for local construction materials. The high expenditures on the production of brick and other construction materials cause the high level of prices, which is in contradiction with the prices for other types of products. We know that a brick now costs 3-4 kopecks, but with allowance made for transportation it costs even more. Therefore here, too, the question of a 10- or 15-percent profitability is also of great importance.

The differentiation of the norms of profitability, which was adopted by the State Committee for Prices, made it possible to ensure an average national economic profitability in the wholesale prices for industrial products with a minimum increase of the overall level of prices.

The new approach to the planning of profitability advances problems connected with the use of the principle of determining the profitability to producer goods in the process of developing the price lists for individual types of products. On the whole the determination, with a breakdown by sectors, of the amount of fixed capital and working capital involved in the production of products does not offer any difficulties. But this cannot be said with respect to individual types of items in sectors with a large and complicated products list, for example, in machine building and local industry. In order to determine the profitability for individual types of their products it is necessary to use indirect methods of the calculation of the capital-intensity. These methods are characterized by the fact that instead of an overall indicator of profitability and capital-intensity on the whole for the sector the corresponding indicators of the profitability in the prices for individual types of products are used. Since an account of the capital-intensity of the production of individual types of products is not kept, the profitability can be distributed either in proportion to the production cost or in proportion to the cost of processing, or by using some other indicators.

For example, if in the expenditures on the production of products raw materials constitute a great proportion and at the same time the products can be produced simultaneously from different types of raw material, which sharply differ from each other according to the level of prices, the amount of the profit in the price of individual items should be established in proportion to the expenditures on processing (the costs for redivision) in the production of these items. When determining the profit in the price for a product, in the expenditures on whose production the greatest proportion belongs to items for making sets, it is necessary to take the production cost less the cost of these items.

All these conventional methods will be all the more precise when for a narrower group of products the capital-intensity is determined by the direct method.

The practice of the use in price formation and in the economic activity of enterprises of the indicator of the profitability to the producer goods also revealed a number of negative features. Above all it is less rigid than the profitability calculated with respect to the production cost. The use of this indicator on a sectorial scale does not create any difficulties. However, if it is used for the determination of the profitability for an enterprise or for individual types of products, a number of problems arise, above all the difference of the assets from the viewpoint of their technical level and valuation. Inasmuch as the fixed capital was introduced at different times, its value is not the same. Frequently the value of old equipment is understated, and the enterprises running on this equipment have an increased standard of profitability, in spite of the fact that their expenditures are higher than at the leading enterprises. If we make a judgment only according to the standard of profitability, it is possible to draw conclusions about the higher efficiency of the old equipment. But in this case not the technical level of the producer goods, but their distorted valuation influences the amount of profitability.

Another problem of the valuation of fixed capital and the value of its depreciation also arises in connection with this. In practice there are instances when the fixed capital according to the value is completely amortized, while physically it continues to thrive and function. If this capital is considered "valueless," it will be the most efficient, which also will contradict technical progress.

Some difficulties arise when determining the capital-intensity of individual types of products, which are produced at different enterprises with a different degree of technical equipment. In such cases the level of capital-intensity is influenced by the relative share of the enterprises in the total production volume of the products, the technical composition of the capital, the specific nature of their valuation and a number of other factors.

The use of the indicator of the profitability to the producer goods requires a detailed study of its peculiarity, the ascertainment along with the positive aspects of the existing shortcomings and the outlining of measures on the most efficient use of this indicator.

Under the new conditions of operation it is important to create for enterprises identical economic opportunities to obtain a profit. During the revision of prices there were expressed the opinions that the new wholesale prices are to ensure the equality of profitability. However, it is impossible to expect a miracle from prices. No matter how great the desire to provide all enterprises with identical opportunities from the standpoint of the level of profitability, it is impossible to solve this problem by

prices alone. And in the presence of the new price lists fluctuations of the profitability for individual enterprises are inevitable, since these fluctuations are not always connected with prices.

The prices for individual types of products should not be "equiprofitable," as well as inert with respect to production and consumption. The new price lists have been drawn up with allowance made for the principle of the stimulation of the most advanced and economical types of products and items of high quality. A higher profitability is stipulated for such products. The prices for interchangeable and analogous types of items have been established with allowance made for their consumer qualities. And this means that the conformity of the prices for such types of products can be achieved only through the planning of different amounts of profit and other forms of net income (the turnover tax, rent payments).

True, the indicated peculiarities of the structure of the price lists, as a rule, cannot cause sharp fluctuations of the profitability of enterprises. The main cause of these fluctuations is the difference in the expenditures on the production of products.

It is impossible to equalize the profitability of enterprises by prices alone. This problem can be solved on the condition of the creation of a flexible financial system of the distribution of the profit of enterprises. Here it is a matter above all of the differentiation of the fee for capital by sectors, and within the sectors by groups of enterprises.

It is impossible to approach the differentiation of the norms from the standpoint of each enterprise. With such an approach it is necessary to establish individual rates of the fee for capital, which would lead to the leveling of the income left at the disposal of enterprises and would violate the principle of economic stimulation. It is expedient to limit the number of differentiated norms of the fee for capital to three or four rates (for example, 3--6--10--12 percent). When grouping enterprises it is necessary, in our opinion, to keep in mind not only the amounts of profitability, but also the uniformity of the composition of the producer goods, the technology of the production process and other objective conditions.

In nearly every sector one will find a certain number of enterprises at which a low level of profitability (say 5 percent) will not make it possible to introduce a fee for producer goods. If this level is caused by reasons not dependent on the work of the collective, these enterprises probably should be exempt from the fee for producer goods.

The question of the differentiation of the fee for producer goods is not at all indisputable. The establishment of different norms of the fee for producer goods creates at enterprises unequal conditions for the replacement of producer goods. Thus, a higher fee for producer goods requires a higher efficiency from new equipment, while a lower fee for producer goods, on the contrary, creates more favorable conditions for the

replacement of equipment. Therefore, the questions of the differentiation of the fee for producer goods need to be studied above all from the standpoint of the influence on the reequipment of fixed capital.

The establishment of new prices does not eliminate the unprofitability of enterprises. But whereas earlier approximately 20 percent of the enterprises were unprofitable, with the introduction of the new prices their number decreased sharply. As a rule, enterprises with obsolete producer goods, as well as new enterprises which have not yet completely incorporated the production capacities will be unprofitable. As for these new enterprises, the unprofitability here is a temporary phenomenon: as production is developed they will be transformed into profitable enterprises.

What is to be done with technically backward enterprises? Some economists proposed as a "radical means" of eliminating the unprofitability of production the closing of technically backward enterprises. Such proposals are not economically well founded.

The objective cause of the existence of unprofitable enterprises consists in the fact that society at each given moment organized its production on the base left to it by the preceding generation. This production base simultaneously grows older and is updated. It is understandable that the possibilities of its updating have their limits. Of course, it is easiest to cease production on all old fixed capital. But the socio-economic consequences would hardly conform to the reasons for the planned management of the economy. The problem of the elimination of the unprofitableness of enterprises should be solved in the general plan of the improvement of the production base on the basis of special measures.

Unprofitability is peculiar "distress signals" which first of all should attract the attention of ministries and departments. And it would be entirely incorrect if the State Committee for Prices "suppressed" these signals by means of higher prices, as some economists have proposed. The ministries and departments are obliged to reveal the causes of unprofitability and to outline measures to eliminate them. Here the basic reconstruction of the enterprise, the expansion of production, the change of specialization and, consequently, the change of the production program and so on may be of help. Thus, the unprofitability of these enterprises also may be considered a temporary phenomenon which should be overcome.

It remains to examine the question of enterprises, the profitability of which considerably exceeds the average sectorial norm. This higher profitability, as a rule, is created by especially favorable objective conditions which are not dependent on the work of the collectives. At such enterprises a large additional income is formed. In those sectors of the extractive industry, in which prices are structured on the average expenditures, the enterprises operating at relatively better deposits also will have a higher profitability. Some enterprises of the processing industry also will receive a higher profit (as a result of the operation of better fixed capital, the use of inexpensive types of raw material and other factors).